

Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 ERDA-07 AID-05 CEA-01 CIAE-00

CIEP-02 COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-15 SAM-01 OES-05 SP-02 SS-15 STR-04 TRSE-00 /115 W
----- 012813

R 141618Z NOV 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 5189

INFO AMEMBASSY ALGIERS

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY DOHA

AMEMBASSY MANAMA

AMEMBASSY ABU DHABI

AMEMBASSY TRIPOLI

AMEMBASSY MOSCOW

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E.O. 11652: N/A

TAGS: ENRG EAL FR SA UR

SUBJECT: FRENCH OIL DEVELOPMENTS

1. SUMMARY: FRENCH OIL IMPORTS AND ENERGY CONSUMPTION REMAIN DOWN; TAXATION SCHEME ESTABLISHED TO ENCOURAGE REDUCED FUEL OIL CONSUMPTION. ELF/ERAP TO BREAK OFF ITS HISTORICAL RELATIONSHIP WITH ALGERIA. OIL PURCHASES FROM USSR FIRM UP, WHILE GOVERNMENT-TO-GOVERNMENT OIL DEAL WITH SAUDIS REMAINS IN LIMBO. FRENCH HOST OAPEC OIL MINISTERS. END SUMMARY.

2. FRENCH PRIMARY ENERGY CONSUMPTION IN 1975 WILL BE DOWN 6.5 PERCENT BELOW 1974 FIGURES AND 6 PERCENT UNCLASSIFIED
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BELOW 1973, ACCORDING TO PRELIMINARY GOF PROJECTIONS.
MAJOR SAVINGS REALIZED IN OIL CONSUMPTION (HOME HEATING

AND INDUSTRIAL FUEL OIL USE PROJECTED TO BE DOWN 15 AND 14 PERCENT RESPECTIVELY) HAVE CONTINUED TO BE DUE MAINLY TO WEATHER AND ECONOMIC SITUATION. GASOLINE CONSUMPTION ON OTHER HAND HAS REMAINED BOUYANT AND GOF CONSEQUENTLY EXPECTED TO RAISE GASOLINE PRICES BY LARGEST AMOUNT IN COMING INCREASE IN PETROLEUM PRODUCT PRICES (WHICH EXPECTED AROUND END OF YEAR IN RESPONSE TO RECENT OPEC CRUDE PRICE HIKE). OIL IMPORTS OVER FIRST NINE MONTHS OF 1975 DOWN 20 PERCENT BELOW 1974, DUE TO DRAWDOWN FROM ABNORMALLY HIGH LEVELS OF STOCK HELD AT 1974 YEAR-END: GOF WILL OBVIOUSLY HAVE NO DIFFICULTY IN COMING UNDER 51 BILLION FRANC CEILING ON OIL IMPORT COSTS IT SET FOR ITSELF LAST YEAR.

3. IN EFFORT TO REDUCE INDUSTRIAL USE OF RESIDUAL FUEL OILS ONCE ECONOMIC RECOVERY GETS UNDERWAY, GOF UNVEILED TAXATION SCHEME IN OCTOBER WHICH WILL PENALIZE CONSUMPTION ABOVE CERTAIN PERCENTAGE OF 1973 BASE PERIOD CONSUMPTION. BASE PERCENTAGE EXPECTED TO AVERAGE 85 PERCENT FOR ALL INDUSTRIAL USERS, BUT WILL BE SET SECTOR-BY-SECTOR FOLLOWING INDUSTRY-GOF NEGOTIATIONS; IN THESE NEGOTIATIONS MINISTRY OF INDUSTRY WILL ATTEMPT TO USE LEVERAGE GIVEN THEM BY TAX (WHICH, AT 150 FRANCS/TON, IS ALMOST ONE THIRD OF PRESENT WHOLESALE PRICE) TO SECURE INDUSTRY COMMITMENTS TO LOWER CONSUMPTION. IDEALLY, IN GOF OPINION, TAX SHOULD NEVER BE COLLECTED. CEILINGS HAVE IN ANY EVENT BEEN PUT ON TAXABLE CONSUMPTION (NO TAXES TO BE CHARGED ON CONSUMPTION ABOVE 110 PERCENT OF BASE PERIOD) AND ON TOTAL TAXES COLLECTABLE (WHICH CANNOT EXCEED 0.4 PERCENT OF A COMPANY'S GROSS REVENUE). TAX REVENUES WILL FLOW TO GOVERNMENT ESTABLISHMENTS (NATIONAL ENERGY FUND AND AGENCY FOR ENERGY SAVINGS) FOR USE IN SUBSIDIZING OR ENCOURAGING ENERGY-SAVING INVESTMENT. TEST OF NEW SYSTEM WILL COME IN SECTOR NEGOTIATIONS, AND ONLY AFTER ECONOMIC ACTIVITY PICKS UP.

4. THE RECENT ANNOUNCEMENT IN PARIS THAT ELF/ERAP WOULD NOT RENEW ITS ASSOCIATION CONTRACT WITH SONATRACH
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MARKS THE TURNING OF A PAGE IN THE OFTEN TEMPESTUOUS FRANCO-ALGERIAN OIL RELATIONSHIP. FOLLOWING MONTHS OF PRICE BARGAINING (PUNCTUATED PERIODICALLY BY PUBLIC OUTCRIES FROM THE GOA AIMED--UNSUCCESSFULLY IN THE EVENT--AT AROUSING PRO-ALGERIAN FRENCH PUBLIC OPINION), ELF/ERAP HAS CONCLUDED THAT THERE IS NO ADVANTAGE EITHER IN RENEWING OR IN LONG-TERM CONTRACT. ACCORDING TO ELF/ERAP SOURCES, THEY HAVE BEEN ASKING FOR NO MORE THAN THE 27 CENTS/BARREL OPERATING FEE AVAILABLE TO P.G. OIL PRODUCING COMPANIES, BUT THE ALGERIANS WOULD GIVE

ONLY 1 - 2 CENTS AND EFFECTIVELY BROKE OFF NEGOTIATIONS
BY CLAIM THAT THEY HAD NO OIL AVAILABLE, IN ANY EVENT,
FOR 1976. THUS ELF/ERAP, WHICH OWES ITS ORIGIN AND
EARLY EXPANSION TO ALGERIAN OIL, MAY WITHDRAW ITS 30
OR SO TECHNICIANS AT YEAR'S END AND WILL TURN ITSELF
INTO AN ARM'S LENGTH PURCHASER (EXCEPT FOR ITS ONE
REMAINING JOINT CONCESSION). OUR ELF/ERAP COURCES
PROFESS UNCONCERN AT RUPTURE OF THEIR LONG ALGERIAN

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TIES, SAYING THEY WILL HAPPILY GET THEIR OIL ELSEWHERE.
THE NET RESULT, NONETHELESS, CAN ONLY BE A FURTHER

DEGRADATION OF THE ALGERIAN-FRENCH TRADE BALANCE IN THE LATTER'S FAVOR. ON THE OTHER HAND, CFP RELATIONS WITH THE ALGERIANS REMAIN FINE, AND THAT COMPANY HAS ALREADY RENEWED ITS ASSOCIATION WITH SONATRACH. ALSO, GAZ DE FRANCE PRESIDENT BLANCARD REPORTEDLY MADE A QUIET VISIT TO ALGIERS RECENTLY TO DISCUSS UNILATERALLY TAKING UP TO 4 BILLION CUBIC METERS PER YEAR OF THE STALLED (AND VIRTUALLY DEAD?) EUROGAS LNG PROJECT SUPPLY.

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5. NEGOTIATIONS WITH OTHER OIL SUPPLIERS CONTINUE. WE UNDERSTAND THAT ELF/ERAP HAS ALMOST COMPLETED FIVE-YEAR PURCHASE CONTRACT FOR SOVIET OIL; IT TO IMPORT ONE MILLION TONS IN 1976 AT WHAT IT CLAIMS WILL BE SLIGHTLY ADVANTAGEOUS CIF TERMS RELATIVE TO COMPARABLE OILS. (PRICES WILL BE RENEGOTIATED ANNUALLY). NEGOTIATIONS WITH SAUDIS, ON OTHER HAND, DID NOT ADVANCE MUCH DURING RECENT FONMIN SAUVAGNARGUES VISIT TO JIDDA, AND WE GET IMPRESSION THAT GOF HAS VIRTUALLY LOST INTEREST. MFA SOURCES TELL US SAUDIS ARE NOW REQUESTING THAT GOF COMMIT FRENCH INDUSTRY TO SPECIFIC GROSS INVESTMENT TARGETS IN RETURN FOR OIL PURCHASES, WHICH GOF UNABLE AND UNWILLING TO DO.

6. FRENCH PETROLEUM INSTITUTE RECENTLY HELD CLOSED SEMINAR IN VERSAILLES WITH OAEPEC OIL MINISTERS WE UNDERSTAND AT LATTERS' SUGGESTION FOLLOWING UP ON SIMILAR SEMINAR HELD IN LONDON LAST YEAR. SEMINAR, BEYOND GIVING FRENCH AN OPPORTUNITY TO SHOW OFF THEIR TECHNICAL CAPACITY, WAS (ACCORDING TO OUR FRENCH SOURCES) REMARKABLY ANODYNE IN CONTENT AND RESULTS, ONLY SPECIFIC CONCLUSION REACHED BEING ONE TO EXPAND EXCHANGES OF TECHNICAL PERSONNEL.

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